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# Department Controls Over Travel Expenditures

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## FINAL AUDIT REPORT



**ED-OIG/A19H0009**  
**July 2008**

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Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Washington, DC

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## **NOTICE**

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

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**UNITED STATES DEPARTMENT OF EDUCATION**  
**OFFICE OF INSPECTOR GENERAL**

July 1, 2008

**Memorandum**

**TO:** Lawrence Warder  
Chief Financial Officer  
Office of the Chief Financial Officer

**FROM:** Keith West /s/  
Assistant Inspector General for Audit Services

**SUBJECT:** Final Audit Report  
Department Controls Over Travel Expenditures  
Control Number ED-OIG/A19H0009

Attached is the subject final audit report that covers the results of our review of the Department of Education's (Department) controls over travel expenditures. We received your comments concurring with the findings and associated recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office(s) will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Enclosure

cc: Michael Gordon, Audit Liaison Officer, Financial Management Operations, OCFO  
Brent Hartzel, Staff Assistant, OCFO

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## EXECUTIVE SUMMARY

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The objective of our audit was to evaluate the effectiveness of Department of Education (Department) controls over the appropriateness of travel expenditures. The Department requires that travel be authorized only when necessary, to accomplish the purpose of the Department's mission in the most effective and economical manner. Official Department travel includes functions such as site monitoring visits, and participation in training, conferences, and workshops.

The Department's Financial Management Policies and Administrative Program Group, within the Office of the Chief Financial Officer, is specifically responsible for the management of the Government travel program.<sup>1</sup> Two types of travel charge cards are used under the program: individually billed accounts (IBA) that are held and paid by the individual cardholders, and centrally billed accounts (CBA) that are held and paid for by the Department's Principal Offices (PO).

Overall, our audit found that Department controls over travel expenditures could be improved. We found that IBA were not always used appropriately. Specifically, we found inappropriate purchases on the IBA both during and not during periods of official travel; Automated Teller Machine (ATM) withdrawals during official travel that exceeded the total Meals and Incidental Expense Allowance for the trip; ATM withdrawals that were not associated with official travel; and instances where the IBA was not used for all required official travel expenses. Inappropriate use of the travel card violates the terms of the contract with the travel card provider, represents abuse of a Government-provided resource, and compromises the integrity of the Department.

We also found that IBA oversight activities need improvement. We found Department officials did not always ensure that costs claimed on individual travel vouchers were accurate, allowable, and actually incurred by the traveler. We noted instances where travel expenditures claimed were not supported by proper documentation or adequate explanation. We also found that PO officials' oversight of CBA was not always effective. Specifically, we found that POs did not always ensure CBA accounts were used as intended or effectively monitor account activity, and CBA charges were not always appropriately supported or reconciled. As a result, improper reimbursements were made to the cardholders and payments were made for services not received.

In addition, we found that IBA management practices should be enhanced. Specifically, IBA were not always cancelled for separating cardholders; infrequently used IBA were not always deactivated timely; IBA were issued to employees without a bona fide need; and credit worthiness checks for new IBA applicants had not been implemented timely. We found that corrective actions in response to prior audit recommendations were not

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<sup>1</sup> Due to a reorganization within OCFO, effective October 1, 2007, the Functional Applications Group, Financial Systems Operations, is responsible for the management of the Government travel program.

properly implemented; appropriate disciplinary actions were not always taken for known misuse of the travel charge card; procedures for performing quarterly travel voucher audits were not documented and were not completed in accordance with stated requirements; and inappropriate Merchant Category Codes (MCC) were not blocked. As a result, the Department is at increased risk for inappropriate charges, and it may have set an unwanted precedent that travel card misuse is not deemed serious.

To correct the weaknesses identified, we recommended that the Chief Financial Officer, among other things:

- Require all existing cardholders to take the required refresher course immediately, before going to the three-year cycle noted in the recently implemented applicable policy;
- Ensure Executive Offices are aware of and fulfill their monitoring responsibilities, and are aware of the tools available to assist them and applicable supervisors in the oversight of IBA activity;
- Develop and implement a mandatory specialized training course for the approving, authorizing, and certifying officials;
- Take immediate action to cancel the accounts noted for separated staff;
- Implement the prior audit recommendation of establishing a procedure to receive timely notice from Human Resources Services for all staff that have separated from the Department to ensure accounts are cancelled upon separation;
- Develop and implement a policy to guide PO staff in reconciling and maintaining adequate documentation to support CBA charges, as recommended during the prior audit;
- Ensure CBA cardholders review and are familiar with Department policy concerning allowable CBA usage;
- Develop and implement a process to ensure that corrective actions are implemented as agreed upon during audit resolution;
- Reiterate to Department supervisors their responsibilities concerning appropriate corrective actions in cases of known misuse of travel cards;
- Develop and implement formal procedures for conducting quarterly travel audits; and
- Develop and implement a process to periodically review MCC codes to reasonably ensure that merchants that do not provide authorized travel services are blocked.

In its response to the draft audit report, the Department concurred with the findings and associated recommendations and provided a corrective action plan to address each recommendation. The Department's response is included as an Attachment to this report.

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## BACKGROUND

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The Department of Education (Department) requires that travel be authorized only when necessary, to accomplish the purposes of the Department's mission in the most effective and economical manner. Official Department travel includes functions such as site monitoring visits, and participation in training, conferences, and workshops.

The *Federal Travel Regulation* (FTR) implements statutory requirements and Executive Branch policies for travel by Federal civilian employees and others authorized to travel at Government expense. The FTR is designed to interpret statutory and other policy requirements in a manner that balances the need to assure that official travel is conducted in a responsible manner with the need to minimize administrative costs. The Department's Office of the Chief Financial Officer (OCFO) has also issued travel related policies and procedures to address items ranging from authorization to reimbursement for Government travel expenditures.

The Department's Financial Management Policies and Administrative Program Group (FMP&APG), within OCFO, is specifically responsible for the management of the Government travel program.<sup>1</sup> Two types of travel charge cards are used under the program: individually billed accounts (IBA) that are held and paid by the individual cardholders, and centrally billed accounts (CBA) that are held and paid for by the Department's Principal Offices (PO). During Fiscal Year (FY) 2006, the Department had 2,025 IBA and 37 CBA with transaction activity. The total sales volume attributed to these accounts was \$7.34 million. Bank of America is the Department's travel card provider.

In 2002, the Office of Inspector General (OIG) evaluated internal controls over the administration of the Department's travel card program and assessed the appropriateness of selected expenditures during the *Audit of Controls over Government Travel Cards* (ED-OIG/A19B0010). The audit found that improvements were needed in the management of the Government travel card program. Specifically, the audit revealed travel cards were not always used appropriately, some travel cards were not canceled timely when staff separated from the Department, and charges to CBA accounts were not always appropriately supported or reconciled.

This audit was conducted to follow up on the prior audit recommendations, to evaluate the Department's compliance with applicable regulations, policies, and procedures, and to determine the effectiveness of the Department controls to ensure the appropriateness of travel expenditures.

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## AUDIT RESULTS

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Our audit found that Department controls over travel expenditures could be improved.

Specifically, we found:

1. IBA were not always used appropriately;
2. IBA and CBA oversight activities need improvement;
3. IBA management practices should be enhanced; and
4. Improvement is needed in overall travel program management activities.

Inappropriate purchases and Automated Teller Machine (ATM) withdrawals were made on the IBA both during and not during periods of official travel, and the IBA were not always used for required official travel expenses. Oversight activities designed to ensure that Department funds were used in an allowable, effective, and economical manner did not always function as intended. In addition, IBA remained open or active unnecessarily, and required Office of Management and Budget (OMB) control activities had not been timely implemented. As a result of weaknesses in overall travel program management, corrective actions in response to prior audit recommendations were not properly implemented; appropriate disciplinary actions were not always taken for known misuse of the travel charge card; and inappropriate Merchant Category Codes (MCC) were not blocked.

As a result, improper reimbursements were made to cardholders and payments were made for services not received. The Department is at increased risk of inappropriate charges and unauthorized ATM withdrawals. Lack of appropriate oversight and disciplinary action may set an unwanted precedent that travel card misuse is not deemed serious. Inappropriate use of the travel card violates the terms of the contract with the travel card provider, represents abuse of a Government-provided resource, and compromises the integrity of the Department.

In its response to the draft audit report, the Department concurred with the findings and associated recommendations and provided a corrective action plan to address each recommendation. The Department's response is included as an Attachment to this report.



## **FINDING NO. 1 – Individually Billed Accounts Were Not Always Used Appropriately**

Individually billed travel card accounts were not always used appropriately. This included instances where IBA were used for purchases that did not relate to official government travel, were used for ATM withdrawals that were either excessive or outside periods of official travel, and were not used for official travel expenses as required.

During FY 2006, there were 45,134 IBA transactions totaling \$6,422,514 (excluding payments). We reviewed 5,515 transactions (12 percent) totaling \$1,030,149 (16 percent) from 125 cardholders.<sup>2</sup> We found that 93<sup>3</sup> of 125 cardholders (74 percent) had at least one instance where the IBA was not used appropriately.<sup>4</sup> This consisted of 304 charges (6 percent) valued at \$49,500 (5 percent). In addition, we reviewed expenses claimed on individual travel vouchers for each of the 125 cardholders.

Specifically, we found that:

- Thirty-four individuals (27 percent) had inappropriate purchases on their IBA. This included purchases made both during and not during periods of official travel. Overall, we identified 120 inappropriate purchases totaling \$18,256. These transactions included charges to vendors such as clothing retailers, restaurants within the employee's local area of residence or employment, and rental cars for personal use.
- Twenty-nine individuals (23 percent) made ATM withdrawals during official travel that exceeded the total Meals and Incidental Expense Allowance (M&IE) for the trip. Overall, these individuals withdrew a total of \$46,090, while travel related M&IE for these trips was \$28,417. In one case, an employee had 20 travel periods with excessive ATM withdrawals. During these travel periods the employee was authorized to withdraw \$1,831 per Department policy, but actually withdrew \$6,420 (351 percent more than authorized) using her IBA.
- Four individuals (3 percent) made ATM withdrawals that were not associated with official travel. The total amount of cash withdrawn was \$13,570. One of these individuals had 44 ATM withdrawals totaling \$8,560 that were outside of official travel periods.

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<sup>2</sup> Our audit results are based on a combination of random and high-risk samples. Therefore, outcomes should not be projected to the universe of Department cardholders or their charges. See the Objective, Scope, and Methodology section of this audit report for more details on the samples reviewed.

<sup>3</sup> Some cardholders are represented in more than one category.

<sup>4</sup> Cardholders noted with inappropriate charges were referred to the applicable Assistant Secretary, or equivalent, for determination as to whether administrative action was necessary.

- Twenty-six individuals (21 percent) did not use the IBA for all official travel expenses. We identified 48 official travel expenses, such as lodging and rental cars, totaling \$6,241, paid via other methods such as personal credit cards.

This audit included 19 IBA accounts that had inappropriate activity identified during the prior travel audit.<sup>5</sup> We found that 8 of the 19 (42 percent) had at least one instance of inappropriate card usage during our current audit of FY 2006 travel activity.

FTR at 41 C.F.R.<sup>6</sup> § 301–51.1 require the mandatory use of the Government contractor-issued travel card for all official travel expenses unless an exemption is granted. 41 C.F.R. § 301–51.6 states the travel charge card may be used for only official travel related expenses. 41 C.F.R. § 301–51.7 states if cardholders use the travel charge card for purposes other than official travel, agencies may take appropriate disciplinary action.

OCFO's *Handbook for Travel Policy* (Handbook), dated September 16, 2004, and May 25, 2006,<sup>7</sup> Chapter VI, Part A, Responsibilities, states,

**The Travel Charge Card is to be used only to charge expenses incurred in conjunction with official Government travel or to obtain authorized ATM (Automated Teller Machine) cash withdrawals....**

**NO PERSONAL SPENDING IS PERMITTED with the card.** A cardholder may not intentionally misuse the travel charge card for personal items, even if he/she intends to pay for the personal purchases when the monthly billing statement is received....<sup>8</sup>

In Part B, ATM Program, it states,

Travel advances related to authorized official travel are obtained by using the Travel Charge Card to withdraw cash from Automated Teller Machines....

...Withdrawals are limited to \$550.00 a day or \$1,100.00 a week, but may not exceed **100%** of the traveler's M&IE for the trip.

OCFO Directive 3-106 (Directive), *Travel Card Program*, effective December 28, 2004, Section VII.A., General Policies, also states, "Cash withdrawals are limited to \$550.00 a day or \$1,100.00 a week, and may not exceed 100% of the traveler's M&IE for a single trip...."

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<sup>5</sup> Audit of Controls Over Government Travel Cards, March 2002, ED-OIG/A19B0010.

<sup>6</sup> Unless otherwise specified, all regulatory citations are to versions dated July 1, 2005 and July 1, 2006. The pertinent provisions are identical in each version.

<sup>7</sup> The pertinent provisions are identical in the 2004 and 2006 versions of the Handbook.

<sup>8</sup> Determination of the intent of misuse was beyond the scope of this audit.

Section VI.C of the Directive includes the following responsibilities for the Executive Offices:

1. Monitor ITCC [Individual Travel Charge Card] activity by employees within their Principal Office (PO) to ensure travelers' compliance with the FTR and ED travel guidance.
2. Review monthly ITCC management reports and notify supervisors immediately of any questionable ITCC charges incurred by their employee(s), unauthorized ATM withdrawals, and delinquent payment of undisputed account balances.

Section VI.B.1, Responsibilities, Supervisors, states,

Upon notification from the Executive Office, review ITCC activity by employees under their supervision to ensure travelers' compliance with the FTR and ED travel guidance.

In addition, the Cardholder Agreement and ITCC Acknowledgement Form that must be signed by the travel card applicant states that the cardholder agrees to use the card for official travel and official travel related expenses only and not use for personal, family or household purposes. The travel charge card itself includes on its face the statement, "For Official Government Travel Only."

Section VII.D, Mandatory Use of the ITCC, reiterates the required use of the ITCC for official travel related expenses, with limited exceptions<sup>9</sup> noted.

The issues identified above occurred in part due to IBA cardholder negligence or lack of familiarity with applicable guidance. For example, travel cardholders provided responses to questions relating to these transactions that included the following:

- The IBA was inadvertently used to pay for personal expenses;
- The employee did not have the travel card in possession during the official trip; and
- The IBA was used at local restaurants for meals with other Department officials.

Although all new travel card applicants are required to take the on-line training course offered by the General Services Administration, there was no requirement for refresher training for existing cardholders until June 2007.

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<sup>9</sup> Exceptions include (1) New employees subject to immediate travel; (2) Employees who have an application pending for the ITCC; (3) Employees traveling on invitational travel; (4) An employee who travels less than twice a year; and (5) An employee whose ITCC was suspended/canceled due to personal abuse or non-payment. Exceptions for certain types of expenses are also noted, including parking, local transportation and tips.

The issues also occurred due to lack of effective oversight by responsible officials. The FMP&APG generates and provides several monitoring reports<sup>10</sup> on a periodic basis to the Executive Officers. In addition, travel card monitoring reports can be generated by POs at any time using the Bank of America Electronic Account Government Ledger System (EAGLS). Our review of Executive Officers' account status in EAGLS showed that only 1 out of 23 accounts (4 percent) was active<sup>11</sup> as of May 4, 2007. Executive Officers indicated that while they may not use EAGLS on a regular basis, their staff does. However, during our review we noted only one instance where PO staff or officials identified improper transactions that were cited above and attempted to implement corrective action.

Inappropriate use of the travel card violates the terms of the contract with the travel card provider. It also represents abuse of a Government-provided resource, and compromises the integrity of the Department.

### **Recommendations**

We recommend the Chief Financial Officer:

- 1.1 Assess the potential costs and benefits associated with development and implementation of electronic data mining to improve the Department's ability to identify potential inappropriate card usage for follow-up and resolution. This could include items such as flagging potentially inappropriate transactions to blocked Merchant Category Codes, potentially excessive ATM withdrawals per traveler by frequency or dollar amount, and comparison of card transaction dates to periods of official travel. Develop and implement such a program if it is considered cost effective.
- 1.2 Require all existing cardholders to take the required refresher course immediately, before going to the three-year cycle noted in the recently implemented applicable policy.
- 1.3 Ensure Executive Officers are aware of and actually fulfill their monitoring responsibilities, and that they are aware of the tools available to assist them and applicable supervisors in the effective oversight of IBA activity.

### **Department Comments**

The Department concurred with the finding and recommendations.

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<sup>10</sup> These reports consist of Delinquency Reports, Pre-Suspension Reports, Suspension and Cancellation Reports, Transaction Activity Reports, Open Account Listing Reports, Infrequent Traveler Reports, and Aging Analysis Reports.

<sup>11</sup> The account becomes inactive after 90 days of inactivity.

## **FINDING NO. 2 – Individually Billed Account Travel Expenditure Oversight Activities Need Improvement**

The Department's oversight activities relating to IBA travel expenditures need improvement. During this audit, we identified instances where oversight activities designed to ensure that Department funds were used in an allowable, effective, and economical manner did not always function as intended. We found Department officials did not always ensure that costs claimed on individual travel vouchers were accurate, allowable, and actually incurred by the traveler. This included validating that claimed expenses were supported by proper documentation, miscellaneous expenses were appropriately explained and documented, and calculations were correct. In addition, officials did not always ensure that expenses were advantageous to the government.

Specifically, we found:

- Forty-three of 125 individuals (34 percent) had at least one claimed item that was not originally supported by proper documentation, adequate explanations, or proper calculations. We found PO files supporting individual travel did not initially include adequate support for 70 claimed items totaling \$20,255. During the course of our audit, POs were able to provide additional support for only a few of these transactions (8 transactions valued at \$2,980) in response to our follow-up requests;
- Three instances totaling \$2,031<sup>12</sup> where employees did not provide sufficient supporting documentation at the time of voucher submission to allow for a determination of whether the Department would be inappropriately paying for premium class travel;<sup>13</sup>
- Eleven instances where employees who filed local travel vouchers either did not have normal daily commuting costs deducted when required, did not include sufficient detail on their travel vouchers to determine if normal commuting costs should have been deducted, or did not include required supporting documentation for their local travel expenses; and
- Fourteen travelers who did not receive pre-approval for reimbursement of actual expenses as opposed to established per diem rates prior to the commencement of their trip.

In addition, travelers did not always exercise care and reasonableness when incurring travel related expenses. For example, an employee elected the option of having the rental agency refuel her rental car instead of doing so herself. The amount paid for refueling ended up exceeding the cost of renting the car. In another case, an employee incurred a

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<sup>12</sup> First class accommodations were used for at least one segment of the trips.

<sup>13</sup> Subsequent to the completion of our fieldwork, one individual was able to provide appropriate documentation indicating the Department was not charged for his premium class travel.

charge exceeding \$100 for a single business call.

We also noted that hardcopies of travel vouchers were not consistently retained. Overall, PO files did not include hardcopy vouchers supporting travel expenditures for 23 of 125 individuals (18 percent) in our sample. In addition, trip reports required to be submitted upon completion of foreign travel were not always maintained by the POs. We were not provided with reports for 8 of 10 individuals (80 percent) in our sample that completed foreign travel during FY 2006. Trip reports for 20 of the 23 foreign trips (87 percent) taken by these individuals were unable to be provided.

41 C.F.R. § 301-11.25 states the travel cardholder must provide a lodging receipt and either a receipt for any authorized expenses incurred costing over \$75, or a reason acceptable to the agency explaining why he/she is unable to provide the necessary receipt.

The Handbook, Chapter VIII, Part C, Approval of Travel Claims, Certifying Officers, states,

The traveler's Certifying Officer must certify that:

- Only official travel expenses are being claimed for reimbursement;
- The mode of transportation used and claimed is the most cost beneficial to the Department; and
- All travel expenses claimed are the most cost beneficial to the Department.

Chapter VIII, Part C, Approval of Travel Claims, Review Items, states,

The Reviewer, Approving Officer, and Certifying Officer should review the Travel Voucher for *authorized, reasonable expenses in compliance with Department policies and the FTR....*

The User Guide for the travel system in effect during our audit scope period stated, "Only in extreme circumstances should a miscellaneous expense be claimed and justification in the comments section should be noted."

The Handbook, Chapter II, Part B, Traveler's Responsibilities, states,

An employee traveling on official business is expected to exercise the same care and reasonableness in incurring expenses that a prudent person would exercise if traveling on personal business. The traveler will limit expenses to those that are essential to the transaction of official business....

Chapter III, Part B, Air Carriers, Premium Class Travel, states travelers are not permitted to use premium class accommodations (first-class, business-class, or the equivalent) except under certain conditions.

Chapter III, Part C, Local Transportation, states,

Travel performed within a 35-mile radius of the employee's official duty station or place of daily commute, whichever is the lesser distance traveled, is considered local travel.... **Reimbursement of expenses for local travel is authorized only for costs incurred above and beyond an employee's normal round trip commuting costs....**

41 C.F.R. § 301-11.302, states,

Requests for authorization for reimbursement under actual expense should be made in advance of travel. However, subject to your agency's policy, after the fact approvals may be granted when supported by an explanation acceptable to your agency.

The Handbook, Chapter V, Part A, Authorization Requirements, states,

Actual expense reimbursement is used only when special circumstances exist, i.e., when travel is to an unusually expensive location and per diem is inadequate. Use of Actual Subsistence **must be approved in advance** by the Director, Financial Management Policies and Administrative Programs Group (FMP&APG), regardless of the amount of increase over the per diem rate. The Director of FMP&APG reserves the right to disallow after the fact requests for actual subsistence reimbursements....

Chapter VIII, Part D, Travel Voucher Copies, states, "The Certifying Officer's office should retain original vouchers and receipts on file for 6 years and 3 months."

Chapter IX, Part C, Trip Report, states,

Upon return from [foreign] travel, the traveler must submit a one-page report of trip activities to the head of the Principal Office, with one copy each to the Secretary and ITS [International and Territorial Services staff]. This report should include a brief description of the activities and participants, a summary of specific accomplishments or outcomes of the travel, a more detailed assessment of implications for Department programs and/or policies, and, if appropriate, a list of next steps.

The conditions occurred in part because of incomplete voucher reviews and unfamiliarity with Department policies and procedures by the applicable approving officials and travelers.

Ineffective oversight of travel expenditures can result in inappropriate use of Department resources and violations of Department policies and/or procedures. Employees may be reimbursed for charges that they did not actually incur or that were unallowable, or reimbursed for more than that to which they are actually entitled. Without timely and

adequate monitoring of travel expenditures, a precedent may be set that inappropriate charges are tolerated by the Department.

### **Recommendations**

We recommend the Chief Financial Officer:

- 2.1 Develop and implement a mandatory specialized training course for the approving, authorizing, and certifying officials reiterating their roles and responsibilities. Refresher courses should be provided on a periodic basis.
- 2.2 Until a training course is developed and implemented, require the applicable officials to review the FTR and Department policies and procedures related to their responsibilities in reviewing travel vouchers and approving travel expenditures.

### **Department Comments**

The Department concurred with the finding and recommendations.

### **FINDING NO. 3 – Individually Billed Account Management Practices Should be Enhanced**

Our audit found opportunities to enhance account management practices and reduce related risk exposure to the Department. During this audit, we noted instances where cards remained open or active unnecessarily, and required OMB control activities had not been implemented timely.

Specifically, we found:

- a. IBA were not always cancelled timely for separating cardholders;
- b. Infrequently used IBA were not always deactivated timely;
- c. IBA were issued to employees without bona fide need; and
- d. Credit worthiness checks for new IBA applicants had not been implemented timely.

The above items occurred in part because corrective actions in response to our prior audit were not implemented; existing controls were not always effective in identifying separating cardholders or inactive accounts and confirming their need for cancellation or deactivation; and timeframes required to implement new Department policies were excessive.

The above items increase the risk of inappropriate activity under the Department's travel program. Inappropriate use of travel cards violates the terms of the contract with the



travel card provider, represents abuse of a Government-provided resource, and compromises the integrity of the Department.

### **Issue 3a – IBA Were Not Always Cancelled Timely for Separated Staff**

The Department did not always cancel IBA for separated staff in a timely manner. As of March 9, 2007, four accounts remained open for staff that separated during FY 2006, ranging between 189 and 282 days since separation. We found no activity on any of the four accounts after the respective employee's separation date.

The Directive, Section VI.D, Responsibilities, Agency Travel Charge Card Program Coordinators, states that this official's responsibilities include closing accounts for those cardholders that separate from the agency or request closure.

The Handbook, Chapter VI, Part A, Contractor-Issued Charge Card Management Procedures, provides the following procedures when employees separate from the Department:

...When an employee leaves the Department, the appropriate Executive Officer should send a notice via e-mail to the Agency Program Coordinator advising of the termination/separation....

Our audit noted that OCFO travel staff did not implement an applicable corrective action from the prior audit.<sup>14</sup> Recommendation 2.2 states,

Establish a procedure to receive timely notice from HRG [Human Resources Group] for all staff who have separated from the Department so accounts can be canceled upon separation.

According to FMP&APG staff, no notice is received from HRG. They receive account termination reports from the Office of the Chief Information Officer (OCIO). FMP&APG staff believed this process provided timely notice of employee separation, and based the cancellation of IBA accounts on these reports.

We noted that each of the separated individuals with an open IBA separated between the period of May through September 2006. We reviewed the OCIO Weekly Termination Reports from that period and noted that none of the staff that had separated were listed on these reports. In an audit issued by OIG in May 2007,<sup>15</sup> we identified weaknesses in OCIO's process for identifying employees that had separated and required termination of their network account. FMP&APG's reliance on related OCIO reports could be contributing to delays in cancellations of IBA for separated employees.

As part of existing procedure, FMP&APG sends a listing of all the open travel card accounts for each PO to the respective Executive Officer on a quarterly basis. Executive

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<sup>14</sup> ED-OIG/A19B0010.

<sup>15</sup> Termination of EDNet Access for Separated Employees, May 2007, ED-OIG/A19G0012.

Officers are requested to verify and provide notice of any accounts that should be cancelled. As noted above, this process did not always identify separated employees with open IBA.

As a result, the Department is at risk for inappropriate charges after separation.

### **Issue 3b - Infrequently Used IBA Were Not Deactivated Timely**

The Department did not deactivate inactive IBA in a timely manner. The process of deactivating IBA is intended to benefit the Department and protect employees by reducing the risk of inappropriate use during periods of infrequent travel. As of March 20, 2007, we identified a total of 371 deactivated accounts, of which 316 had last purchase dates. We found that 276 accounts (87 percent) were deactivated more than 365 days since the respective last purchase date. Of these:

- One-hundred thirty accounts (41 percent) were deactivated from 1,001 to 2,000 days after the last purchase date; and
- Forty-seven accounts (15 percent) were deactivated from 2,001 to 2,917 days after the last purchase date.

FMP&APG sends a listing to the Executive Officers annually of all of the travel cardholders that are identified by the travel card provider as infrequent travelers. Executive Officers are requested to review the report and provide feedback on whether the identified accounts can be deactivated. According to FMP&APG, they did not have any problems receiving feedback from the Executive Officers.

*Department's Travel Card Management Plan*, OCFO, Financial Management Policies and Administrative Programs Group, dated March 1, 2006, Version 1.0, states, "Infrequent Traveler Reviews are completed on a yearly basis...."

The Directive, Section VII.F, states,

...a cardholder's supervisor may request the deactivation of an ITCC during periods when the employee will not be traveling frequently. The supervisor must notify FMP&APG to deactivate the ITCC within a reasonable amount of time after determining that the ED employee will be traveling infrequently.... The supervisor must notify the employee and the Executive Officer by email or other written correspondence to initiate deactivation.

Since FMP&APG believed it received timely responses from the Executive Officers, it could not understand why there were such delays in deactivating infrequent travelers' accounts. It appears the information that is received may not be correctly identifying accounts needing to be deactivated. The Executive Officers may not be thoroughly reviewing the reports, or may not have the knowledge required to effectively respond to the reports.

The Department is at increased risk for inappropriate charges for not deactivating infrequent traveler charge cards timely.

### **Issue 3c – IBA Were Issued To Employees Without a Bona Fide Need**

We found that IBA were issued to employees without a bona fide need. As of March 20, 2007, a total of 55 open IBA had not been used since their issuance. Of these accounts:

- Thirty-six were issued prior to 2000;
- Eight were issued between 2000 and 2001;
- Nine were issued between 2002 and 2004;
- Two were issued between 2005 and 2007;

These accounts were deactivated but remained open.

The Directive, Section VII.A, states it is Department policy that all employees who travel more than twice a year will apply for an IBA. Section VI.B.4, states supervisors are to ensure that IBA are issued only to individuals with a bona fide need.

According to FMP&APG, it merely acts as a liaison between the PO and the travel card provider by forwarding the completed applications after ensuring that Department requirements, such as training, have been met by the applicants.

While there is no cost for issuing travel cards, the Department may be exposed to unnecessary risk for inappropriate charges by issuing travel cards to employees that do not meet Department guidelines.

### **Issue 3d – Credit Worthiness Check for New Travel Card Applicants Was Not Implemented Timely**

The Department did not implement a required credit worthiness check for new travel card applicants in a timely manner. The credit worthiness check was to be effective beginning in FY 2006 (October 1, 2005). The credit check was actually implemented on October 15, 2007 -- over two years after the required implementation date.

OMB Circular A-123, Appendix B, Chapter 6 – Credit Worthiness, effective FY 2006, states,

...each agency must assess the credit worthiness of all **new** travel card applicants prior to issuing a card.... In order for a first time applicant to receive a card to which standard agency restrictions apply, a credit score must be obtained for that employee. The credit score obtained must be 660 or higher.... For first time travel card applicants with a credit score of less than 660, the agency may issue a card, but more stringent restrictions will apply....

FMP&APG did not receive notification of the credit worthiness check requirement for new travel charge card applicants until the OMB Circular A-123 was issued on August 5, 2005. According to FMP&APG, it takes an average of six to eight months to update an Administrative Communications System directive. The process can be further delayed due to requests for extensions by the Office of the General Counsel and the employees' Union, and additional time needed by FMP&APG to address and respond to any comments made by the aforementioned parties involved.

Delays in implementing the required control increased the risk that ineligible employees may have received travel charge cards without any additional restrictions. This may place the Department at a higher risk of inappropriate charges and unauthorized ATM withdrawals.

### **Recommendations**

We recommend the Chief Financial Officer:

- 3.1 Take immediate action to close the accounts noted for separated staff.
- 3.2 Implement the prior audit recommendation of establishing a procedure to receive timely notice from the Human Resources Group for all staff that have separated from the Department to ensure accounts are cancelled upon separation.
- 3.3 Develop and implement end of FY procedures to deactivate all IBA with no activity during the prior FY, and provide Executive Officers a listing of deactivated accounts for their POs along with instructions for reactivating the charge card if needed.
- 3.4 Reiterate to Department supervisors that travel cards are to be issued only to employees with a bona fide need.
- 3.5 Ensure future internal control requirements are implemented in a more timely manner.

### **Department Comments**

The Department concurred with the finding and recommendations.

#### **FINDING NO. 4 – Improvement is Needed in Oversight of Centrally Billed Accounts**

Overall, we found that PO officials' oversight of CBA activity was not always effective. We found that POs did not always ensure CBA accounts were used as intended or effectively monitor account activity, and CBA charges were not always appropriately supported or reconciled.

During FY 2006, there were 3,727 CBA transactions totaling \$920,862 (excluding payments). We reviewed 1,103 transactions (30 percent) valued at \$561,746 (61 percent) from a total of 16 POs. Our review specifically sought to determine whether selected CBA transactions were allowable, supported, occurred during official travel, and were not duplicated on IBA accounts. Specifically, we found:

- Twenty-seven transactions (2 percent) totaling \$23,925 (4 percent) where CBA were used inappropriately, charges to CBA were improperly reimbursed to employees, or credits were not received. This included purchases for items such as boardroom rental, phone lines, and related set up materials. It also included travel expenses incurred for employees with an open IBA, and transactions for airfare and meals paid with Department funds that were also reimbursed to employees when they filed travel vouchers. CBA accounts were also billed and the Department paid for travel that was not completed and for reservations that were not cancelled timely;
- Seventy-one (6 percent) transactions totaling \$21,121 (4 percent) that we could not determine related to official travel due to lack of sufficient supporting documentation; and
- Twenty instances of potential duplicate charges totaling \$5,109. This included 3 transactions billed to both a CBA account and a traveler's IBA account, and 17 transactions with a matching amount at the same merchant where support provided was insufficient to distinguish the transactions as unique.

Additionally, the PO files supporting CBA transactions did not include adequate support for 257 (23 percent) charges in our sample totaling \$89,143 (16 percent). Overall, 13 of the 16 POs in our review had at least one charge that was not adequately supported and 11 of 16 POs did not have adequate support for at least 15 percent of their CBA transactions on file. POs provided additional support for some of these transactions in response to our follow-up requests. However, at the completion of audit fieldwork a total of 121 (11 percent) transactions valued at \$36,116 (6 percent) were not adequately supported.

U.S. Department of the Treasury, Financial Management Service, *Treasury Financial Manual*, is the official publication for financial accounting and reporting of all receipts and disbursements of the Federal Government. Section 2020.10, Objectives, states,

The principal objectives of control over disbursements are to ensure that all disbursements are legal, proper, and correct and that all disbursements are accurately recorded, reported, and reconciled in a timely and efficient manner.

Section 2020.30, "Preaudit of Vouchers," states,

Effective control over disbursements requires the preaudit and approval of vouchers before they are certified for payment. The principal objectives of the preaudit of a voucher are to determine whether...the quantities, prices and amounts are accurate...proper forms of documentation were used....

The Handbook, Chapter VI, Part C, Centrally Billed Account, states,

A CBA is a corporate account issued to Executive Offices and Regional Component Heads to be used for the procurement of all passenger transportation services by a common carrier or transportation services or lodgings when an employee's Travel Charge Card cannot be used. A CBA must be used for official authorized passenger transportation by common carrier for those travelers who have not been issued an individual contractor-issued Travel Charge Card or whose travel card has been canceled. Use of the CBA for lodging expenses may be authorized at the discretion of each Principal Office.

The Directive, Section VI.C.6, Responsibilities, Executive Offices, states the responsibilities of Executive Offices include implementing controls to ensure there is no duplicate payment or reimbursement of travel-related expenses resulting from charges made on IBA and CBA.

Overall, CBA cardholders did not appear aware of Department policy or did not always ensure that transactions were in accordance with Department policy. For example, one PO indicated items were charged to the CBA because there were no Purchase Card holders present. In another instance, a PO responded that a particular CBA was reserved for occasions where food and beverage are requested for official events.

Executive Officers generally outlined expectations that each CBA charge is to be reconciled to the appropriate source documents prior to payment. However, as noted above, these expected procedures were not always followed. During the course of this audit, we noted instances where reconciliation of individual transactions relied upon documentation other than source receipts identifying actual costs incurred, such as travel authorizations, or referenced documentation that showed amounts, travel periods, and destinations that differed from what was on the CBA. In some cases, individual travel vouchers were included as support, indicating they may have been used for reconciliation. Additionally, one PO indicated that supporting documentation had been lost and that billed costs had been reconciled back to the Bank of America online system.

A similar finding was noted during our prior audit<sup>16</sup> and included a recommendation for the Department to develop and implement a policy to guide PO staff in reconciling and maintaining adequate documentation to support centrally billed account charges. Our review of the Department's action in response to the recommendation found the corrective action had not been properly implemented.<sup>17</sup> This likely contributed to the existence of similar conditions noted in our prior audit.

Weaknesses in oversight contributed to inappropriate card use, improper reimbursement, and payment for services not received. Failure to obtain adequate support and perform appropriate account reconciliations increases the potential for erroneous CBA payments.

### **Recommendations**

We recommend the Chief Financial Officer:

- 4.1 Develop and implement a policy to guide PO staff in reconciling and maintaining adequate documentation to support CBA charges, as recommended during the prior audit.
- 4.2 Review the potential duplicate charges identified during our audit and pursue applicable credits as appropriate.
- 4.3 Ensure employees are aware that they are not entitled to reimbursement for charges paid for by the CBA, and recover amounts that were erroneously reimbursed to employees as identified in this audit.
- 4.4 Ensure CBA cardholders review and are familiar with Department policy concerning allowable CBA usage.
- 4.5 Develop, if not already available, and implement required training specific to the responsibilities of CBA cardholders.

### **Department Comments**

The Department concurred with the finding and recommendations.

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<sup>16</sup> ED-OIG/A19B0010.

<sup>17</sup> See additional details in Finding No. 5 of this report.

## **FINDING NO. 5 – Improvement Is Needed In Overall Travel Program Management Activities**

We found further improvement in overall travel program management is needed. During this audit we noted instances where corrective actions in response to prior audit recommendations were not properly implemented, appropriate disciplinary actions were not always taken for known misuse of travel charge cards, procedures for performing quarterly travel voucher audits were not documented and were not completed in accordance with stated requirements, and inappropriate MCC were not blocked.

The above items occurred in part because the Department implemented measures that did not reflect previously agreed upon corrective actions, did not comply with established policies and procedures, and had not reviewed MCC codes for several years.

As a result, the Department is at increased risk for inappropriate charges, and it may set an unwanted precedent that travel card misuse is not deemed serious.

### **Issue 5a - Corrective Actions in Response to Prior Audit Recommendations Were Not Properly Implemented**

Corrective actions related to prior audit recommendations were not all properly implemented. As outlined below, we found corrective actions in response to two audit recommendations were not properly implemented.

The Corrective Action Plan (CAP) for recommendation 2.2 in the prior audit stated,

The Department's Office of Management/Human Resources Group [OM/HRG] implemented a procedure that for employees separating from the Department prompt notification will be made to the Travel Card program manager so that accounts will be cancelled immediately upon separation.

The Department identified the corrective action as completed on June 1, 2002. During this audit, FMP&APG officials indicated they do not receive notice of employee separation from OM/HRG. However, they stated that they do receive weekly account termination reports from OCIO and close IBA based on these reports. As noted in Finding 3a, we reviewed the OCIO weekly account termination reports and did not identify the four employees that separated during FY 2006 that still had open IBA as of March 2007.

The CAP for recommendation 3.1 in the prior audit stated,

FMP&APG will develop and implement a policy to guide Program Office staff in reconciling and maintaining documentation to support CBA charges.



The Department identified the corrective action as completed on March 5, 2002. Our review noted that while guidance was e-mailed to Executive Officers, it was not incorporated into the applicable Department Directive or Handbook as official policy. While this guidance noted CBA charges should be reconciled to invoices from the CBA account provider, it did not provide any specific guidelines for reconciling CBA charges to supporting documentation, or provide examples of acceptable supporting documentation. The prior audit noted travel authorizations and travel agent itineraries as documentation being used to support expenditures. The guidance issued stated only that documentation to support that the trip actually took place must be provided to the Authorizing Official before payment, and that once payment has been made, the CBA provider invoice should be attached to the supporting documentation and filed. As noted in Finding 4, our audit has continued to note weaknesses in this area.

OMB Circular A-50, "Audit Followup," Section 5, states,

Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

Implementing measures other than the agreed upon corrective actions did not provide assurance that identified deficiencies were corrected. As a result, related items identified in the prior travel card audit were again noted in this review. The Department's vulnerability to inappropriate and unsupported charges remained higher than necessary.

**Issue 5b– Appropriate Disciplinary Actions Were Not Taken for Known Misuse of Travel Charge Cards**

Appropriate disciplinary actions were not taken for known misuse of travel charge cards. During FY 2006, we identified 10 cancelled IBA accounts. Six of the accounts were cancelled due to either resignation or retirement. We could not determine whether the resignations or retirements were related to misuse of the travel charge card. Five of these accounts that were cancelled as a result of either resignation or retirement had past due balances ranging from \$31 to \$9,858 and totaling \$14,092 at the time of separation. The remaining four accounts were cancelled specifically due to known misuse or non-payment. We received no evidence that disciplinary action was taken against three of the four account holders.

The Directive, Section VI.B.3, Responsibilities, Supervisors, states,

Initiate appropriate corrective action, up to and including possible removal from Federal service, in any case of unauthorized use of an ITCC by an employee under his/her direct supervision. This includes improper charges, unauthorized ATM withdrawals, and delinquent payment of undisputed balances.

The Department's Personnel Manual Instruction (PMI) 751-1, *Discipline and Adverse Actions*, dated September 5, 2003, provides guidance on specific disciplinary actions that may be imposed by supervisors based on the nature of the offense, including suggested actions for travel card related offenses.

Not taking appropriate disciplinary action for known misuse of travel cards may set an unwanted precedent that travel card misuse or non payment of outstanding balances are not deemed serious by the Department. Failure to take appropriate action could also add additional unnecessary risk for future inappropriate charges. This risk is validated by the fact that some travel cardholders that were cited as having inappropriate charges during the prior audit, were also cited as having inappropriate IBA usage during this audit. Inconsistent practices in applying appropriate disciplinary actions create the perception that actions are not applied fairly, which may present barriers to appropriate discipline in subsequent cases.

### **Issue 5c – Quarterly Travel Voucher Audits Could Be Improved**

We found that the Department's process for completing quarterly travel voucher audits could be improved. We specifically noted that procedures for performing these audits had not been developed, quarterly audits were not always completed, and the quarterly audits that were completed were not performed in accordance with stated requirements. Per Department policy, the quarterly travel voucher audits are conducted to ensure that applicable Department and government-wide policies are adhered to.

During this audit, we noted that FMP&APG had not developed formal procedures for completing quarterly travel voucher audits. There was no specific guidance provided such as the objective of the audits, which travel voucher elements should be reviewed, what documentation should be retained, how results should be compiled, and how reporting should be completed. Documentation provided by FMP&APG to support completion of these audits consisted solely of copies of the vouchers selected for review and a sampling worksheet identifying the number of vouchers selected. There was no report to summarize results at the individual voucher level, PO level, or Department-wide level. During our review, we noted numerous Executive Officers indicated they routinely received requests for the travel vouchers but they did not receive feedback related to the outcome of the quarterly audits.

We also found that travel voucher audits were not completed for each quarter during FY 2006. Specifically, an audit was not conducted during the third quarter of the fiscal year due to problems with sample generation.

Finally, we noted that completed quarterly audits were not performed in accordance with expected requirements. Per sampling worksheets, a two percent sample of the travel vouchers processed during the quarter was to be selected for review. However, FMP&APG did not complete this sample percentage in any of the three quarters where audits were completed due to problems with obtaining vouchers and supporting documentation. Department policy requires the audit to be a thorough examination to ensure that Departmental policy and applicable regulations are being followed. However, FMP&APG officials indicated the audits focused on ensuring that common carrier and lodging expenses were documented.

As part of our audit, we reviewed five travel vouchers included in each of the three quarterly travel voucher audits completed, and identified the following errors that were not caught:

- Two taxi fares of less than \$75 were reimbursed as \$75. Receipts for both taxi fares were attached to the voucher;
- Reimbursement was provided for personal telephone usage on a non-lodging night;<sup>18</sup>
- Full per diem was reimbursed on a travel day, and 75 percent of per diem was paid when the traveler was not considered to be in official travel status;
- An official travel expenditure was not paid for with the travel charge card as required; and
- Supporting documentation provided by the PO did not support the voucher selected.

The Handbook, Chapter VIII, Part C, Travel Voucher Audits, states,

A random sampling of the Department's travel vouchers are selected quarterly and receive a thorough examination to ensure that Departmental policy and FTR regulations are being followed....

Government Accountability Office *Standards for Internal Control in the Federal Government*, states,

Deficiencies found during ongoing monitoring or separate evaluations should be communicated to the individual responsible for the function and also to at least one level of management above that individual.

With respect to the lack of formal procedures, FMP&APG staff stated they continued to follow the process that was in place when the Department began processing travel

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<sup>18</sup>The Handbook permits up to \$7 for personal calls per lodging night.

vouchers in 2002.<sup>19</sup> They indicated that no formal guidance was provided to them on conducting such quarterly audits. FMP&APG staff believes the Department's policy went beyond the general requirements and that there are no formal policies or regulations requiring government agencies to conduct travel voucher audits. They categorized these audits as another layer of control added to reduce risk.

With respect to the lack of a travel voucher audit in the third quarter of FY 2006, FMP&APG staff stated a sample was generated in Travel Manager,<sup>20</sup> but it failed to produce a listing of travelers, dates, and amounts. They noted that Travel Manager did not allow generation of another sample after the initial attempt, therefore the audit was not conducted.

With respect to completing less than the planned sample, FMP&APG staff indicated they reviewed what was received from the PO and that their follow-up efforts to obtain selected vouchers were not always successful. They stated their original request for vouchers was made to the Executive Officer, and he or she would forward the request to the regional offices as appropriate. However, FMP&APG staff stated in response they received copies of the vouchers via e-mail, FedEx, interoffice mail, U.S. Mail, and fax. They had hoped to receive one package from each of the POs and not receive bits and pieces from all over the country. As a result, they did not compare the vouchers received to the sampled report.

Finally, FMP&APG officials stated that the quarterly audits focused on common carrier and lodging expenses because they represented the majority of the overall travel expenditures.

Without formally documented procedures for performing quarterly audits, the original intent of ensuring that Department funds are used properly for authorized travel may not be achieved. Staff may not have a clear understanding of the specific procedures to be followed when conducting the audits, and staff new to FMP&APG may have greater difficulty learning about the process without written procedures to refer to. Without following-up on documentation that is not provided by POs, inappropriate charges may be overlooked. Reviewing only readily available documentation would not provide FMP&APG with an accurate evaluation of compliance with Department policies. In addition, the PO's inability to provide requested supporting documentation should be considered a finding. Without providing for a consistent reporting process, POs may not implement corrective actions where warranted.

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<sup>19</sup> Travel vouchers were previously processed by the U.S. Department of Agriculture.

<sup>20</sup> The electronic travel voucher system in place during the audit scope period.

### **Issue 5d – Inappropriate Merchant Category Codes Were Not Always Blocked for IBA and CBA**

Inappropriate MCC were not always blocked for individually and centrally billed accounts. IBA are used for common carrier expenses, lodging expenses, rental cars and other authorized travel related expenses. During our review, we noted merchant codes relating to items such as video game arcades and business and secretarial schools that would appear to have no relation to official travel that had not been blocked.

A CBA is used for the procurement of passenger transportation services by a common carrier or transportation services or lodgings when an employee's travel charge card cannot be used. Our review noted MCCs that were not blocked that would appear inappropriate for CBA usage, including boat rentals and boat leases, truck and utility trailer rental, trailer parks and campgrounds, and food stamps.

The Department's *Travel Card Management Plan*, Section 4.6, Ensuring Effectiveness of Risk Management Controls, states that blocking MCC codes is one of the best practices to be effective in managing risk.

According to FMP&APG staff, when MCC blocks were implemented in 2002, there was the thought that there could be a need for the use of these MCC codes. Staff noted they did not want to cause travelers too much inconvenience or hardship while in travel status. Blocked MCC codes have not been reviewed since initially implemented in 2002.

The Department is at risk for inappropriate charges by cardholders to MCCs related to merchants that do not provide official travel related services.

### **Recommendations**

We recommend the Chief Financial Officer:

- 5.1 Immediately implement the corrective action plans for recommendations 2.2 and 3.1 from the prior audit.
- 5.2 Develop and implement a process to ensure that corrective actions are implemented as agreed upon during audit resolution.
- 5.3 Reiterate to Department supervisors their responsibilities concerning appropriate corrective actions in cases of known misuse of travel cards, in accordance with the applicable Directive and PMI 751-1.
- 5.4 Develop and implement formal procedures for conducting quarterly travel audits. At a minimum, procedures should outline the requirements for sampling procedures, the complete and thorough review of all vouchers selected; maintenance of supporting documents for all quarterly audits performed; and

- providing feedback to the PO of the results of the audit.
- 5.5 Review the listing of MCC codes identified by the OIG that do not appear to have valid uses for official travel purposes for IBA and CBA accounts (separately provided). Determine if each of these codes should be blocked and take appropriate action.
  - 5.6 Develop and implement a process to periodically review MCC codes to reasonably ensure that merchants that do not provide authorized travel services are blocked.

### Department Comments

The Department concurred with the finding and recommendations.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of our audit was to evaluate the effectiveness of Department controls over the appropriateness of travel expenditures. To accomplish our objective, we performed a review of internal control applicable to the Department's management of the travel program. We reviewed the Federal Travel Regulations, Department policies and procedures, and Government Accountability Office *Standards for Internal Control in the Federal Government*. We conducted interviews with OCFO and PO management and officials responsible for administering the travel card program. We also reviewed Bank of America online transaction data,<sup>21</sup> CBA travel card statements, travel authorizations and vouchers,<sup>22</sup> and supporting documentation for travel expenditures incurred and reimbursed to evaluate their appropriateness.

To perform our audit, we obtained access to the Bank of America Electronic Accounting Government Ledger System (EAGLS) for all Department activity. This system includes all travel card activity for both IBA and CBA. This is the same system that individual account holders and PO staff may access to review and monitor travel card activity. We downloaded all charges made on the travel card accounts during FY 2006 and determined the following activity during the year:<sup>23</sup>

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<sup>21</sup> Charges for agent fees, late payment fees, and payment by phone fees were not reviewed.

<sup>22</sup> Includes local travel vouchers.

<sup>23</sup> We did not include any travel charges made by the various boards and commissions that participate in the Department's travel program, as these organizations do not represent a high volume of charges, and the staff are not considered Department employees.

Account Type	Number of Accounts With Activity	Number of Non-Payment Transactions	Value of Non-Payment Transactions
IBA	2,025	45,134	\$6,422,514
CBA	37	3,727	\$920,862
Total	2,062	48,861	\$7,343,376

In order to assure ourselves of the reliability of the data downloaded, we tested the accuracy and authenticity of the EAGLS database information by comparing charges listed to travel vouchers, receipts, and other source documents and supporting records. We validated the completeness of the data downloaded by tracing additional receipts from the travel vouchers and other source documents back to the database information. We also compared monthly totals from our downloaded data to the monthly totals for the Department posted on the GSA web site. Based on these tests and assessments, we concluded the data were sufficiently reliable to be used in meeting the audit objective.

Details on the sampling methodology used in the audit are as follows:

**IBA Reviewed:**

We selected IBA to review based on the samples below. We reviewed all FY 2006 charges for those selected accounts that had less than 20 trips (local and temporary duty) during FY 2006. For accounts that had 20 or more trips, we limited our review to the first 20 trips that occurred during the second and third quarters of FY 2006, chronologically. If an account was selected based upon identified high-risk transactions, i.e., casino charges, ATM usage, or charges to blocked merchant category codes, we reviewed those specific transactions without limitation. Eliminating accounts that occurred in more than one of the categories, we identified 129 different accounts. However, four of the accounts that were selected based upon the cancelled accounts criteria did not have any activity other than late and/or payment by phone fees that were not reviewed. In total, we reviewed 125 unique accounts.

- **Random Stratified Sample** – We reviewed a random stratified sample of 49 IBA based on volume of charges made during FY 2006.<sup>24</sup>

Stratum	Transaction Range	Number of Accounts	Number Selected
1	\$500 - \$5,000	1,381	18
2	\$5,001 - \$20,000	334	24
3	\$20,001 - \$40,000	24	5
4	\$40,001 - \$50,000	2	2

- **Stratified Sample of High ATM Use** – We reviewed all 7 accounts with 26 or more ATM transactions during FY 2006.

<sup>24</sup> There were no accounts with total charges greater than \$50,000 during FY 2006.

- **Casino Charges** – We reviewed all 18 accounts that had 1 or more casino charge during FY 2006. We eliminated those accounts with charges from restaurants within the casino hotels and multiple accounts with similar charges from the same location on the same date.
- **Blocked Merchant Category Codes**<sup>25</sup> – We reviewed all 43 accounts with charges to MCC that Department staff determined were inappropriate for the travel card. We reduced the number of accounts based on transactions we deemed appropriate such as airport parking charges, lodging expenses, mass transit, and expenses related to hurricane recovery efforts.
- **Cancelled Accounts** – We reviewed all 10 accounts that were cancelled during FY 2006.
- **Accounts of Employees Identified with Inappropriate Charges from Prior Audit** – We reviewed all 19 accounts with charge activity during FY 2006.

For FY 2006, IBA cardholders charged 45,134 non-payment transactions valued at \$6,422,514 (excluding payments and fees). We reviewed 5,515 transactions valued at \$1,030,149 (excluding payments and fees). Our sample represented 12 percent of the total number of transactions and 16 percent of the total value of the transactions charged by IBA cardholders during the year.

To determine whether IBA charges were appropriate, we traced charges made to travel vouchers provided by the POs.<sup>26</sup> We also verified travel vouchers to the Bank of America data to ensure we reviewed all travel vouchers for the period. In cases where IBA charges were not supported by a travel voucher, we referred those charges to PO Executive Officers for a determination as to whether the charges were for official travel expenses and therefore appropriate use of the travel card. The results presented in this report are based on the responses from the PO Executive Officers.

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<sup>25</sup> According to FMP&APG, charges can be processed by blocked MCC merchants, usually if within a certain dollar threshold, as determined by the charge card provider.

<sup>26</sup> Since some of the POs did not maintain hardcopies of the vouchers as required, we obtained access to the Travel Manager system in place during our scope period and printed the vouchers ourselves for those accounts included in our sample.



**Distribution of IBA Sampled by PO:**

<b>Principal Office</b>	<b>Number of IBA Sampled</b>
Federal Student Aid	35
Office for Civil Rights	15
Office of Elementary and Secondary Education	13
Office of Special Education and Rehabilitation Services	12
Office of the Secretary	12
Office of Communications and Outreach	11
Office of Postsecondary Education	9
Office of Management	4
Institute of Education Sciences	3
Office of the Chief Financial Officer	3
Office of English Language Acquisition	2
Office of Planning, Evaluation, and Policy Development	2
Office of Safe and Drug Free Schools	2
Office of the General Counsel	1
Office of Innovation and Improvement	1
Office of Legislation and Congressional Affairs	1
Office of the Chief Information Officer	1
Office of the Deputy Secretary	1
Office of Vocational and Adult Education	1
Total (19 POs)	129

**CBA Reviewed:**

We reviewed a CBA for 16 of the 19 POs with selected IBA cardholders. Three POs did not have any charge activity on their CBA<sup>27</sup> accounts during FY 2006. If a PO had more than one CBA, we reviewed the CBA with the highest dollar volume of charges during FY 2006. We reviewed all charges for FY 2006 for the CBA with one exception -- the Office of the Secretary. The account we selected for our review had a very large amount of activity. We limited our review in the Office of the Secretary to the third quarter of FY 2006 and two high-risk transactions identified in the fourth quarter.

For FY 2006, Department staff charged 3,727 transactions valued at \$920,862 on all CBA (excluding payment and fees). We reviewed 1,103 FY 2006 transactions valued at \$561,746 (excluding payments and fees). Our sample represented 30 percent of the total number of transactions and 61 percent of the total value of the transactions charged on Department CBA during the year.

<sup>27</sup> Office of the Deputy Secretary, Office of the Chief Information Officer, and Office of Legislation and Congressional Affairs.

As with the IBA reviewed, we matched CBA charges to supporting documentation provided by the POs. In cases where documentation did not support charges made, we referred the items to the PO Executive Officers for their determinations as to whether the charge was appropriate. The results presented in this report are based on the responses from the PO Executive Officers.

Our review included the application of the same procedures and analyses noted above to IBA and CBA activity within OIG. Since OIG is not independent of its own activities, the results of the review are not included in this report. We did, however, provide the results of the review of OIG activity to appropriate Department officials in OCFO who have oversight over the travel program. In addition, the results were reported to OIG managers responsible for implementing corrective actions.

The fieldwork for our audit was conducted at Department offices in Washington, DC, during the period March 2007 through December 2007. We held an exit conference with OCFO on January 10, 2008. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.



## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

JUN 24 2008

THE CHIEF FINANCIAL OFFICER

MEMORANDUM

TO: Keith West  
Assistant Inspector General for Audit

FROM: Lawrence A. Warder

SUBJECT: Draft Audit Report – ED-OIG/A19H0009  
Department Controls Over Travel Expenditures

OCFO has reviewed the draft audit report entitled “Department Controls Over Travel Expenditures”, ED-OIG/A19H0009. This report provides Department management with valuable insights concerning travel expenditures, and we appreciate the opportunity to provide comments on behalf of the Department. We agree that there are areas for improvement in the controls over travel expenditures, and we concur with the findings and recommendations noted in the draft audit report.

Background

On October 2, 2006, the Department implemented a new e-Gov Travel System (eTS) based on mandated regulations and recommendations of the President’s Management Agenda. Additionally, in November 2008 the Department will transition to a new bank card vendor under General Services Administration (GSA’s) Master SmartPay2 contract. The new bank card vendor will be JP Morgan Chase and will replace the current bank card vendor, Bank of America.

Individually Billed Accounts Were Not Always Used Appropriately

The Department concurs with this finding. The Office of the Chief Financial Officer (OCFO) will research the feasibility of implementing electronic data mining to improve the Department’s ability to identify potential inappropriate card usage. OCFO will require each existing cardholder to take a refresher course available on line through GSA’s website and require each cardholder to print and forward the certificate of completion to OCFO for retention. OCFO will advise Executive Officers (EXOs) of their monitoring and fulfillment responsibilities surrounding their oversight of Individually Billed Account (IBA) activity.

Individually Billed Account Travel Expenditure Oversight Activities Need Improvement

The Department concurs with this finding. OCFO will move forward to develop and implement a specialized training course and subsequent refresher courses for the approving, authorizing and certifying officials to reiterate their roles and responsibilities. OCFO will work with the union to negotiate on making the course mandatory. In the interim, OCFO will send a global message via email to the applicable officials regarding their responsibilities with regard to their familiarization with the Federal Travel Regulations (FTR), the Department’s travel policies and procedures for reviewing travel vouchers and travel expenditures.

Individually Billed Account Management Practices Should be Enhanced

The Department concurs with this finding. OCFO has closed the accounts identified in the audit. OCFO has recommended changes to the Administrative Communications System (ACS) Directive, Clearance of Personnel for Separation or Transfer, OM:3-104, regarding the Separation of Employees and has recommended that the Travel Team be added to the ‘check out’ process to ensure that separating employees have fulfilled their travel obligations and the surrendering of the card before separation. This ACS is still in ‘draft’ status and is awaiting issuance by the Office of Management. OCFO will issue procedures to deactivate all IBAs with no activity during the prior fiscal year (FY) and will provide EXOs a listing of all deactivated accounts for their respective PO. The procedures will outline the instructions for reactivating the charge card if needed. OCFO will reiterate to Department supervisors that travel cards are to be issued only to those employees with a bona fide need.

Improvement is Needed in Oversight of Centrally Billed Accounts

The Department concurs with this finding and steps are already in development to implement all recommendations noted in the report.

Improvement is Needed in Overall Travel Program Management Activities

The Department concurs with this finding. OCFO will implement a process to ensure that future corrective actions are implemented as agreed to during the audit resolution process. OCFO will reiterate to Department supervisors their responsibilities concerning appropriate corrections actions in cases of known misuse of travel cards, in accordance with the applicable ED Directive and Policy. OCFO will develop and implement formal procedures regarding audit sampling. OCFO is currently undergoing a review of Merchant Category Codes (MCC) codes and will develop a process to periodically

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review MCC codes to ensure that merchants who do not provide travel services are blocked.

Thank you for the opportunity to respond. Attached is the proposed corrective action plan with proposed completion dates. Feel free to contact me or Constance Davis with questions regarding this response.

Attachment - Corrective Action Plan